

# Forbes



Ashoka

WE WRITE ABOUT CHANGE IN THE MAKING.

[ENTREPRENEURS](#) | 7/29/2013 @ 1:00AM | 4,996 views

## Divesting From Fossil Fuels Means A Cleaner, Safer And More Resilient Future

 [Logan Yonavjak](#), Contributor

There are still ample reserves to continue building our economy based on fossil fuels (two great articles on this subject [here](#) and [here](#)), but if we want to stabilize the climate and avoid the most catastrophic effects of climate change, we have to stop investing in extracting, refining and burning them.



Climate change means more frequent and intense storms. Credit: Flickr, NASA Goddard Photos and Video.

Scientists and economists say that going forward we must leave [80 percent](#) of the current coal, oil and gas reserves in the ground in order to stay below 2 degrees Celsius and avoid the worst effects of climate change (which, at current levels, we are [expected to reach by 2052](#)). According to the [latest estimates](#), the fossil fuel industry currently holds **5 times** more in reserves than we can safely burn.

Unless investors divest their current capital in fossil fuel companies, they plan on refining and burning existing reserves because they have been valued at approximately [\\$28 Trillion dollars](#) (\$20 Trillion of this estimate, however, is considered a “carbon bubble;” more on this later).

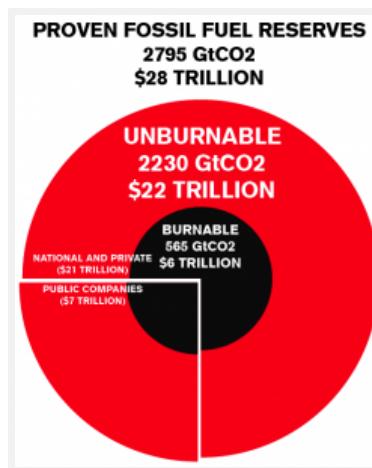
Luckily, many investment professionals are realizing that business-as-usual cannot continue. “Climate change and the increasing scarcity of natural resources requires an investment strategy and carbon-sensitive portfolio that accounts for this transformation,” says R. Paul Herman of [HIP Investor](#), a boutique wealth advisory and sustainability ratings firm that creates fossil fuel free portfolios for individual, family and institutional clients.

The first step is divestment and then a re-alignment of our investment strategies into carbon-neutral or negative solutions across industry classes: from agriculture to transportation to electricity.

## The “Carbon Bubble” – Why Fossil Fuels Investments Are Increasingly Risky

There is also increasing uncertainty surrounding the valuation of fossil fuel securities due to a likely carbon bubble. Thus, broader fossil fuel divestment, not only from equities but also from corporate bonds, can actually provide downside risk protection.

“Long-dated bonds of fossil fuel companies, some with maturities extending decades into the future, could readily become toxic financial assets as the credit quality of their issuers deteriorate in reaction to belated market responses to the harsh reality of [stranded asset risk](#) and systemic climate risk,” warns Joshua Humphreys of the [Tellus Institute](#).



The \$20 Trillion Carbon Bubble. Credit: ThinkProgress.org.

Market responses could include a carbon tax that will increase the price of fossil fuels and concurrently incentivize renewable energy investments. According to some estimates, average carbon prices could be more than [\\$100 per metric ton](#) if the full lifecycle costs of carbon were assessed properly.

This isn't just a viewpoint that small institutional investors are espousing. [Groups as diverse](#) as Shell, Mercer, HSBC, prominent insurance companies and re-issuers, Standard & Poor's and the [International Energy Agency](#) have been giving clear warning signs about continuing to invest in fossil fuels. Experts leading the divestment conversation have different suggestions for pathways to fossil fuel divestment (see below).

From a fiduciary responsibility perspective, divestment also makes sense – as emerging risks to the value of portfolios become known, trustees and fiduciaries are obligated as prudent investors to incorporate this data into their investment allocation strategies.

Overall, if we examine fossil fuel investing from a risk and fiduciary responsibility perspective, divestment from fossil fuels should be viewed as a key for unlocking assets for much more creative and constructive uses of capital instead of a “constraint” on a manager’s investment universe.

### What You Can Do As An Investor: Divestment Is The First Step

Divestment is a critical first step in the transition into a carbon-neutral economy. Several road maps have been laid out that can help institutional investors navigate this process.

**For investors concerned about risk:** Aperio Group's report, [“Building A Carbon Free Portfolio”](#) has calculated that eliminating fossil fuel energy firms (as few as the top 15 to as much as the entire fossil fuel production industry) does not create a significant potential penalty of theoretical return.

This report demonstrates the low risk of removing fossil fuels from portfolios, which combined with the high (and increasing) risks of holding onto fossil fuel investments makes a very compelling case that fossil fuel divestment can be a

safe and effective action.

**For investors who aren't sure where to begin:** Joshua Humphrey's article, "[Institutional Pathways to Fossil-Free Investing: Endowment Management in a Warming World](#)," creates a framework to rebuild portfolios on fossil-free investments (and includes a number of institutional case studies), using three steps:

The first involves freezing fossil fuel investments in the 200 largest fossil fuel companies (measured by proven carbon reserves in oil, gas or coal). The second step builds on the first and reinvesting a minimum of 5% of the portfolio in fossil-free investments. The third and final pathway involves divestment and then strategic reallocation across all asset classes to manage climate risk and embrace sustainable investment opportunities.

**For investors interested in going beyond fossil fuel divestment and beginning to do responsible investing:** HIP Investor just released a report with [350.org](#), "[Resilient Portfolios and Fossil-Free Pensions](#)," that makes the case for fossil fuel divestment but also explains sustainable reinvestment options for each asset class, including:

Public Equities (domestic and international), Hedge Funds, Infrastructure and Real Assets, [Real Estate](#), Private Equity and Notes, Fixed Income (including corporate and government-issued) and Cash and Banking. They include an Appendix, which lists possible funds and investments to consider.

Although they have been lucrative, fossil fuels are becoming increasingly risky investments, and the stakes have become too high to maintain a stable climate. A carbon-neutral, and eventually carbon-free, economy is not only possible; it has become imperative.

*Disclaimer: This article is provided for informational purposes only. It does not constitute investment advice. The examples and cases of asset managers, investment strategies, vehicles and institutional investors presented in this report should in no way be considered endorsements or investment solicitations. Past performance presented does not guarantee future results.*

---

—

*Logan Yonavjak ([@loganyon](#)) has been an independent consultant since 2012. She has worked with HIP Investor to apply their triple bottom line scorecard methodology to corporations, organizations and investment strategies. Logan also consults with the Conservation Private Capital Group, a team of conservation finance experts working to launch a new United States fund for land conservation. Logan is a freelance writer for [Nextbillion.net](#), [Ashoka Changemakers](#), and Forbes.*

---

This article is available online at:

<http://www.forbes.com/sites/ashoka/2013/07/29/divesting-from-fossil-fuels-means-a-cleaner-safer-and-more-resilient-future/>